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FISCAL IMPACT STATEMENT

LS 7109 | **NOTE PREPARED:** Jan 8, 2006
BILL NUMBER: SB 365 | **BILL AMENDED:**

SUBJECT: State Employee Retirement Health Benefits.

FIRST AUTHOR: Sen. Kenley | **BILL STATUS:** As Introduced
FIRST SPONSOR:

FUNDS AFFECTED: X GENERAL | **IMPACT:** State
X DEDICATED
X FEDERAL

Summary of Legislation: This bill provides for group health insurance coverage for a state employee who retires under the "Rule of 85" after June 30, 2006, and the retired state employee's spouse. The bill also allows the state to make monetary contributions for state employees to cover health care-related costs.

Effective Date: July 1, 2006.

Explanation of State Expenditures: *Summary:* This bill permits state employees who retire after June 30, 2006, under the "Rule of 85", and who are not eligible for Medicare to continue to participate in the health insurance program offered to active state employees, but with a reduced premium contribution. The retired employee will be required to contribute an amount equal to the same premium that is paid by active state employees. Currently, a retired state employee must pay a premium amount that is equal to both the employee share and the employer share. A preliminary estimate of the net additional state expenditures is $0.8 M in FY 2007, $2.5 M in FY 2008, $4.5 M in FY 2009, and $7.0 M in FY 2010. [Net expenditures are anticipated to continue growing past FY 2010; however, at this time later years have not been estimated.]

This bill also allows the state to make additional monetary contributions to a retirement medical benefits account established for the purpose of converting unused excess accrued leave to a monetary amount. Money in the account may be used by the retiree to pay for health insurance benefits on a pretax basis. Any future state monetary contributions for this purpose will depend on legislative and administrative actions.

Background Information: Currently, state employees may retire with normal retirement benefits if the employee's (1) age is at least 65 and has accumulated at least 10 years of creditable service; (2) age is at least

60 and has accumulated at least 15 years of creditable service; or (3) age is at least 55 and whose age plus years of creditable service sum to at least 85 ("Rule of 85"). In addition, an employee may retire with reduced retirement benefits if the employee's (4) age is at least 50 with at least 15 years of creditable service. This bill applies to individuals who meet the criteria for (3), above, those who qualify under the "Rule of 85".

Under current statute, retired state employees who are at least 55 years of age, have completed 20 years of creditable service (10 of which were completed immediately preceding retirement), and have completed at least 15 years of participation in the retirement plan are able to participate in the state employee group health benefit plans. Also under current statute, the entire cost of the insurance premium, both the employee share and the state share, must be paid by a retired employee.

This bill provides that retired employees who meet the criteria for the "Rule of 85" and are under the age for Medicare eligibility must pay only the cost of the insurance premium paid by an active employee and the state will pay the employer share. The current employer share of premiums for single coverage for active employees varies between 77% and 100%, depending on the health benefit plan. The employer share for family coverage varies between 76% and 100%.

The number of employees meeting the age and service requirements of the bill and can be expected to retire under the assumptions in this model are estimated to range from approximately 530 to 575 in the first four years. These numbers include both the estimated number of employees who would have retired anyway, as well as an estimated number who would not otherwise have retired, but would choose to because of the additional incentive provided by the reduced cost of health insurance. These numbers are anticipated to continue growing past FY 2010. However, the number of expected retirements for later years have not at this time been estimated. The annual number of retirees for which the state will be contributing toward retiree health insurance will accumulate for several years before a relatively steady state is reached.

A salary savings is factored into the estimate because of the anticipated hiring of a less expensive replacement for those employees who would not have otherwise retired, but will now because of the incentive. An adverse experience factor is also applied to those individuals who would have retired anyway, but would not have chosen to participate in the state health plan were it not for the extra incentive provided by the reduced premium cost.

This analysis is based on a data set containing the age and service data for 33,500 active state employees as of December 31, 2004.

Explanation of State Revenues:

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: All.

Local Agencies Affected:

Information Sources: Public Employees Retirement Fund data.

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